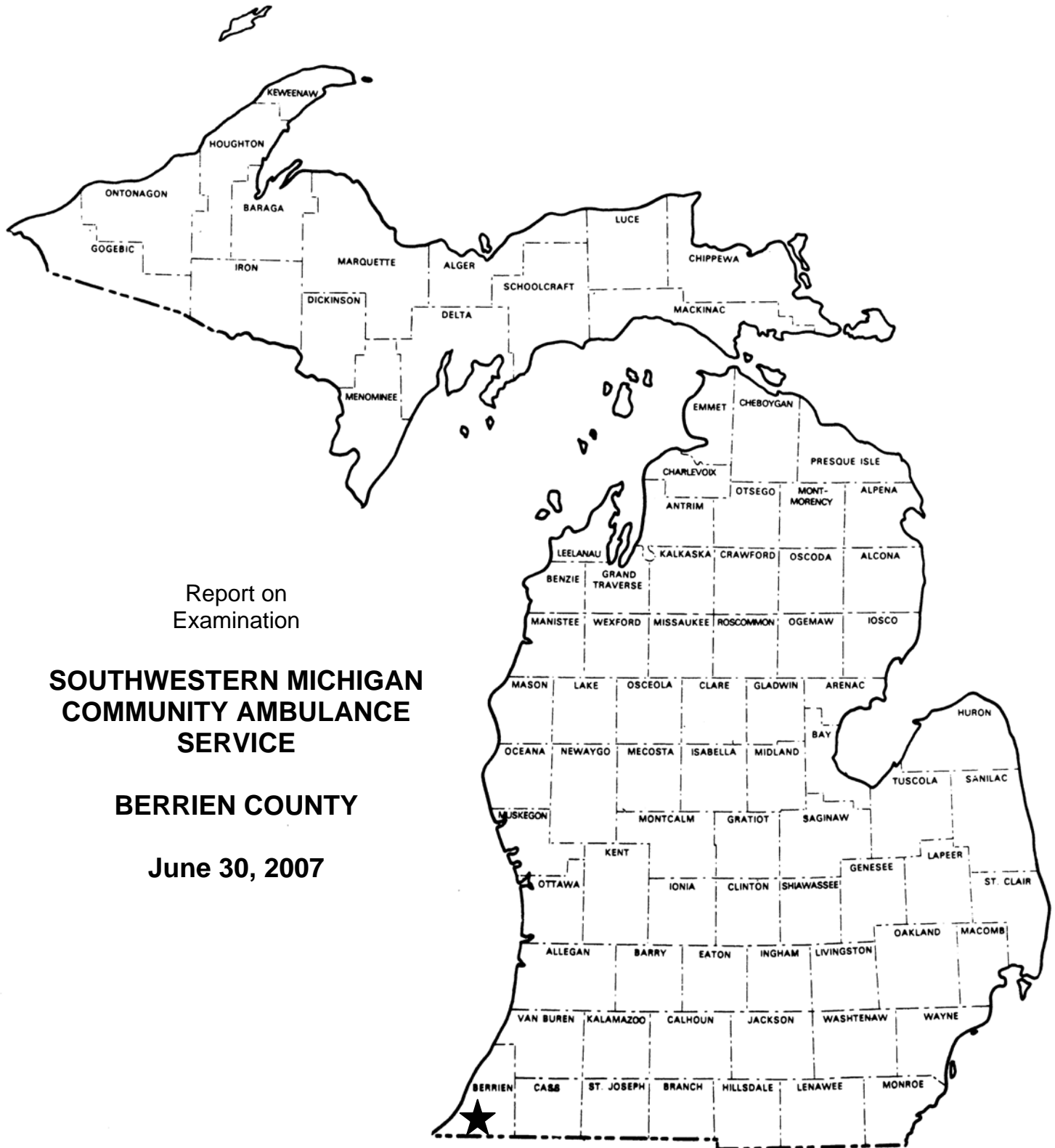


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



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SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

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DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 8, 2007

Southwestern Michigan Community
Ambulance Service
2100 West Chicago Road
Niles, Michigan 49120

RE: Unqualified Opinions on Basic Financial Statements Accompanied by
Required Supplementary Information and Supplementary Information

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the business-type activities of the Southwestern Michigan Community Ambulance Service, as of and for the year ended June 30, 2007, which collectively comprise the Southwestern Michigan Community Ambulance Service's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Southwestern Michigan Community Ambulance Service's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southwestern Michigan Community Ambulance Service, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2007 on our consideration of Southwestern Michigan Community Ambulance

Service's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

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SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Southwestern Michigan Community Ambulance Service (SMCAS), a State of Michigan Licensed Advanced Life Support Ambulance Agency, is in its second year of implementing the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB 34) with the enclosed basic financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the SMCAS's discussion and analysis of the financial results for the year ended June 30, 2007.

SMCAS is owned by the townships of Bertrand, Buchanan, Niles and Howard and by the cities of Buchanan and Niles. These municipalities have jointly formed a special assessment district. Each year, the boards of these municipalities meet to establish the special assessment to be levied for the upcoming year. In addition, a renewal ballot question is brought before the voters every four years. For the fiscal year ending June 30, 2007, the assessment rate was \$10.00 per dwelling and the contract rate was \$20.00 per dwelling.

The SMCAS service area is approximately 190 square miles and includes the aforementioned municipalities. In addition, SMCAS services a portion of Pokagon Township on a contract rate that is twice the yearly assessment rate capped at a rate of \$20.00 per dwelling. SMCAS also served the Township of Milton on a contract basis until April 1, 2006 when the Township of Milton cancelled their contract for ambulance service.

SMCAS currently owns five advanced life support ambulances and a paramedic first responder vehicle. Two transport ambulances are fully staffed twenty-four hours a day, a third transport ambulance is fully staffed twelve hours a day, and the first responder vehicle is staffed by management during normal business hours and on an as needed basis. In July 2005, SMCAS increased the staffing level to include four medical personnel to staff the twelve-hour car. This increase in medical staffing levels represents the first scheduled crewmember staffing increase since SMCAS went to the Advanced Life Support level in 1986. In March of 2006, SMCAS reinstituted a wheelchair van program to better serve the citizens of the service area.

Emergency calls for service for the years ended June 30, 2006 and 2007 were 3,662 and 3,811, respectively. This amounted to a 4.07 percent increase in emergency run volume. Ambulance transfers for the years ended June 30, 2006 and 2007 were 715 and 752, respectively. This amounted to a 5.17 percent increase in transfer run volume.

In 2005, SMCAS took the initiative to train six employees to the Instructor Coordinator Level. In 2005 and 2006, these six individuals along with the Niles City Fire Department instituted an educational program to train the entire Niles City Fire Department to the Medical First Responder level and ultimately to the Emergency Medical Technician Basic level. In the spring of 2006, SMCAS also trained eleven Emergency Medical Technicians to the Specialist level. Six of the eleven individuals are current SMCAS staff members. In 2005 and 2006, SMCAS also provided training to advance ten of the eleven full-time paramedics to the Critical Care Level. In the 2007 and the upcoming 2008 years, SMCAS has four individuals currently enrolled in a Paramedic training class. This advanced training documents SMCAS's commitment to providing the highest level emergency health care to the citizens and visitors of the greater Niles-Buchanan area.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of the Southwestern Michigan Community Ambulance Service's financial performance provides an overview of the Southwestern Michigan Community Ambulance Service's financial activities for the fiscal year ended June 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Southwestern Michigan Community Ambulance Service and present a longer-term view of their finances.

Overview of the Financial Statements

This annual report consists of two parts--management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the Southwestern Michigan Community Ambulance Service:

- The first two statements are financial statements that provide both long-term and short-term information about the Southwestern Michigan Community Ambulance Service's overall financial status. These statements report information about the Southwestern Michigan Community Ambulance Service, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Southwestern Michigan Community Ambulance Service's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two statements report the Southwestern Michigan Community Ambulance Service's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Southwestern Michigan Community Ambulance Service's financial health or position.
- The remaining Statement of Cash Flows is to demonstrate the activities of the Southwestern Michigan Community Ambulance Service as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Southwestern Michigan Community Ambulance Service as a Whole

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Southwestern Michigan Community Ambulance Service, as a whole, and about its activities in a way that helps answer the question of whether the Southwestern Michigan Community Ambulance Service, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets include all of the Southwestern Michigan Community Ambulance Service's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Southwestern Michigan Community Ambulance Service's net assets and how they have changed. The reader can think of the Southwestern Michigan Community Ambulance Service's net assets (the difference between assets and liabilities) as one way to measure the Southwestern Michigan Community Ambulance Service's financial health or financial position. Over time, increases or decreases in the Southwestern Michigan Community Ambulance Service's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Southwestern Michigan Community Ambulance Service you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Southwestern Michigan Community Ambulance Service's buses, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Southwestern Michigan Community Ambulance Service as a Whole

The Southwestern Michigan Community Ambulance Service's net assets decreased approximately 4.46% or \$118,344 from \$2,653,258 to \$2,534,914 for the year ended June 30, 2007. The net assets and change in net assets are summarized below.

Net Assets

The restricted and unrestricted net assets increased by \$91,574 and \$543, respectively, and the investment in capital assets decreased by \$210,461 during 2007. The decrease in the investment in capital assets decreased due to the depreciation on the capital asset.

Net assets as of year ended June 30, 2007 are as follows:

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$1,305,747	\$1,456,432	\$ 150,685	11.54%
Net Capital Assets	<u>1,449,718</u>	<u>1,239,257</u>	<u>(210,461)</u>	<u>-14.52%</u>
Total Assets	<u>2,755,465</u>	<u>2,695,689</u>	<u>(59,776)</u>	<u>-2.17%</u>
Current Liabilities	<u>102,207</u>	<u>160,775</u>	<u>58,568</u>	<u>57.30%</u>
Total Liabilities	<u>102,207</u>	<u>160,775</u>	<u>58,568</u>	<u>57.30%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	1,449,718	1,239,257	(210,461)	-14.52%
Restricted for Capital Projects	490,529	582,103	91,574	18.67%
Unrestricted	<u>713,011</u>	<u>713,554</u>	<u>543</u>	<u>0.08%</u>
Total Net Assets	<u><u>\$2,653,258</u></u>	<u><u>\$2,534,914</u></u>	<u><u>\$(118,344)</u></u>	<u><u>-4.46%</u></u>

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

	2006	2007	Variance	%
Operating Revenue				
Charge for Services	\$ 2,307,569	\$ 2,377,658	\$ 70,089	3.04%
Membership Fees	43,478	37,970	(5,508)	-12.67%
Recovery of Accounts Previously Written Off	12,627	13,932	1,305	10.33%
Special Assessments	253,879	198,801	(55,078)	-21.69%
Municipal Contract Revenues	19,000	7,920	(11,080)	-58.32%
Operating Grants	14,545		(14,545)	-100.00%
Other	30,102	22,792	(7,310)	-24.28%
Less Adjustments	(950,149)	(955,222)	(5,073)	0.53%
Nonoperating Revenue				
Loss on Disposal of Assets	(1,502)		1,502	-100.00%
Interest Earned	34,743	34,033	(710)	-2.04%
Total Revenue	<u>1,764,292</u>	<u>1,737,884</u>	<u>(26,408)</u>	<u>-1.50%</u>
Operating Expense				
Operating Expenses	1,546,346	1,635,511	89,165	5.77%
Depreciation	208,818	220,717	11,899	5.70%
Total Operating Expense	<u>1,755,164</u>	<u>1,856,228</u>	<u>101,064</u>	<u>5.76%</u>
Change in Net Assets	9,128	(118,344)	(127,472)	-1396.49%
Beginning Net Assets	<u>2,644,130</u>	<u>2,653,258</u>	<u>9,128</u>	<u>0.35%</u>
Ending Net Assets	<u><u>\$ 2,653,258</u></u>	<u><u>\$ 2,534,914</u></u>	<u><u>\$ (118,344)</u></u>	<u><u>-4.46%</u></u>

Adjustments to net revenue will continue to be a large item as SMCAS is mandated to accept assignment from both Medicare and Medicaid, which both pay at a below cost amount.

The special assessment for fiscal year 2006 was \$13.00 per dwelling rate. Fiscal year 2007 special assessment was \$10.00. The additional \$3.00 per dwelling assessment in fiscal year 2006 was used to set aside funds to help pay for the State of Michigan mandated electronic reporting requirements. The funds will be used to purchase the software and hardware necessary to comply with this reporting requirement.

In 2006, Milton Township cancelled their contract for ambulance services with SMCAS. This loss is reflected in the municipal contract revenues line.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset Administration

As of June 30, 2007, the Southwestern Michigan Community Ambulance Service had \$1,239,257 invested in a broad range of capital assets such as land, building, vehicles, and equipment. All assets are paid with funds from Southwestern Michigan Community Ambulance Service and therefore Southwestern Michigan Community Ambulance Service has no debt issued in its name.

Economic Factors and Next Year's Budget

The most pressure issue facing SMCAS in fiscal year 2008 will continue to be below cost reimbursement issues and uncollectible accounts. Adjustments and write-offs to accounts are budgeted at over one million dollars. The board will continue to monitor these items at each monthly meeting.

The 2008 fiscal year budget reflects a special assessment rate of \$20.00 per parcel. This assessment rate was approved by a majority of the owner municipalities of SMCAS. A portion of the assessment collected will be used to fund operations as well as to purchase and replace needed capital assets.

Contacting the Southwestern Michigan Community Ambulance Service's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Southwestern Michigan Community Ambulance Service's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Executive Director's office at 2100 West Chicago Road, Niles, Michigan 49120, phone number (269) 684-2170.

**SOUTHWESTERN MICHIGAN COMMUNITY
AMBULANCE SERVICE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007**

EXHIBIT A

	ENTERPRISE FUND
	<u>Ambulance</u>
<u>ASSETS</u>	
Current Assets	
Cash and Cash Equivalents	\$ 281,288
Investments	573,354
Patients Accounts Receivable--Net of Allowance for Uncollectible Amount	569,149
Accounts Receivable	548
Due From Other Units of Government	7,993
Prepaid Expenses	<u>24,100</u>
Total Current Assets	<u>1,456,432</u>
Noncurrent Assets	
Capital Assets--Net of Accumulated Depreciation	<u>1,239,257</u>
Total Noncurrent Assets	<u>1,239,257</u>
Total Assets	<u><u>\$2,695,689</u></u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	\$ 1,644
Accrued Liabilities	49,538
Unearned Membership Fee	19,567
Other Payables	<u>4,354</u>
Total Current Liabilities	<u>75,103</u>
Noncurrent Liabilities	
Vested Employee Benefits	<u>85,672</u>
Total Noncurrent Liabilities	<u>85,672</u>
Total Liabilities	<u>160,775</u>
<u>NET ASSETS</u>	
Invested in Capital Assets	1,239,257
Restricted for Capital Projects	582,103
Unrestricted	<u>713,554</u>
Total Net Assets	<u><u>\$2,534,914</u></u>

The Notes to Financial Statements are an integral part of this statement.

**SOUTHWESTERN MICHIGAN COMMUNITY
AMBULANCE SERVICE
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS--PROPRIETARY FUNDS
For the Year Ended June 30, 2007**

EXHIBIT B

	ENTERPRISE FUND
	<u>Ambulance</u>
Operating Revenues	
Charge for Services	\$ 2,377,658
Membership Fees	37,970
Recovery of Accounts Previously Written Of	13,932
Special Assessments	198,801
Municipal Contract Revenues	7,920
Other	22,792
	<u>2,659,073</u>
Subtotal	
	2,659,073
Less Adjustments to Revenues	
Medicare	(488,978)
Medicaid	(275,179)
Blue Cross/Blue Shield	(34,627)
Uncollectible Accounts	(88,615)
Membership Adjustments	(10,921)
Other Adjustments	(56,902)
	<u>(955,222)</u>
Subtotal	
	(955,222)
Total Operating Revenues	<u>1,703,851</u>
Operating Expenses	
Wages and Fringe Benefits	1,368,018
Vehicle Expense	98,632
Building Expense	35,853
EMS Supplies	48,001
Administrative Expense	85,007
Depreciation	220,717
	<u>1,856,228</u>
Total Operating Expenses	
	1,856,228
Net Operating Income (Loss)	<u>(152,377)</u>
Nonoperating Revenues (Expenses)	
Interest Income	34,033
	<u>34,033</u>
Total Nonoperating Revenues (Expenses)	
	34,033
Change in Net Assets	(118,344)
Net Assets--July 1, 2006	<u>2,653,258</u>
Net Assets--June 30, 2007	<u><u>\$ 2,534,914</u></u>

The Notes to Financial Statements are an integral part of this statement.

**SOUTHWESTERN MICHIGAN COMMUNITY
AMBULANCE SERVICE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2007**

EXHIBIT C

	ENTERPRISE FUNDS
	<u>Ambulance</u>
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 1,300,731
Cash Payments to Employees for Services and Benefits	(1,293,543)
Cash Payments to Suppliers for Goods and Services	(279,541)
Receipt of Membership Fees	37,970
Receipt of Special Assessments	212,102
Receipt of Contractual Fees	7,920
Receipt of Accounts Previously Written Off	13,932
Receipt of Other Revenues	<u>22,792</u>
Net Cash Provided by Operating Activities	<u>22,363</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	<u>(10,254)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(10,254)</u>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	34,033
Sale of Investments	<u>24,305</u>
Net Cash Provided by Investing Activities	<u>58,338</u>
Net Increase (Decrease) in Cash and Cash Equivalents	70,447
Cash and Cash Equivalents--Beginning of Year	<u>210,841</u>
Cash and Cash Equivalents--End of Year	<u><u>\$ 281,288</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (152,377)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	220,717
Decrease (Increase) in Accounts Receivable	(120,855)
Decrease (Increase) in Intergovernmental Revenue	13,301
Decrease (Increase) in Prepaid Expenses	3,009
(Decrease) Increase in Accounts Payable	(15,057)
(Decrease) Increase in Accrued Liabilities	74,475
(Decrease) Increase in Unearned Revenue	<u>(850)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 22,363</u></u>

The Notes to Financial Statements are an integral part of this statement.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Southwestern Michigan Community Ambulance Service (SMCAS) was formed as a corporation in 1975 under the provisions of Michigan Public Acts pertaining to intergovernmental contracts between municipal corporations, for the purpose of providing ambulance services. The municipalities included in the corporation are the City of Niles, City of Buchanan, Niles Township, Buchanan Township, Bertrand Township, and Howard Township. Each local unit appoints one person to comprise the seven member board that governs SMCAS.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets) report information of the activities of SMCAS. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents SMCAS' assets and liabilities with the difference being reported as either invested in capital assets or restricted net assets.

The Statement of Revenue, Expenses and Changes in Net Assets demonstrates the degree to which the operating expenses of a given function or segment is offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as nonoperating revenue.

The financial activities of SMCAS are recorded in an enterprise fund. This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing busing services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the busing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The SMCAS has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

When both restricted and unrestricted resources are available for use, it is SMCAS' policy to use restricted resources first, then unrestricted resources as needed.

Cash and Investments

Cash is considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the Operating Fund in the government-wide financial statements. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions for depreciation of equipment are computed on the straight-line method.

Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building and Improvements	7 to 30 years
Equipment	3 to 7 years
Vehicles	3 to 5 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C--CASH DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes SMCAS to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

SMCAS has designated three financial institutions for deposit of SMCAS funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investment in accordance with the State statutory authority as listed above.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

The risk disclosures for SMCAS' deposits, as required by GASB Statement No. 40, are as follows:

	<u>Business-Type Activities</u>
Cash (Checking Accounts)	\$ 281,238
Investments (Government Money Market)	573,354
Petty Cash	<u>50</u>
Total Deposits	<u><u>\$ 854,642</u></u>

The bank balance of the SMCAS's deposits is \$858,625, of which \$200,000 is covered by Federal depository insurance.

Custodial Credit Risk-Checking Accounts

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, SMCAS' deposits may not be recovered.

At June 30, 2007, the bank balance of the deposits is \$285,271, of which \$200,000 is covered by Federal depository insurance and \$85,271 was uncollateralized

Custodial Credit Risk-Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, SMCAS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

The counterparty; or

The counterparty's trust department or agent, but not in the government's name.

SMCAS does not have an investment policy for managing custodial credit risk.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, SMCAS's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Financial Institution</u>	<u>Investment Type</u>	<u>Rated Debt Investments</u>		
		<u>Fair Value</u>	<u>Credit Rating</u>	<u>Rating Institution</u>
Wells Fargo	Money Market Funds	\$ 573,354	Aaa AAAm	Moody's S&P

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. SMCAS does not have an investment policy disclosing interest rate risks. At June 30, 2007, the fair value of SMCAS' investments listed above have a weighted average maturity of 12 days.

NOTE D--ACCOUNTS RECEIVABLE

The patient accounts receivable consists of billings to insurance companies and individuals for ambulance services provided. As of June 30, 2007, SMCAS has a patient accounts receivable balance of \$749,149 and has estimated that \$180,000 of that receivable will be uncollectible for the net receivable balance of \$569,149 reported in the financial statements.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 8,195			\$ 8,195
Subtotal	8,195	\$ -	\$ -	8,195
Capital Assets Being Depreciated				
Building	1,228,172		475	1,227,697
Medical Equipment	252,951	3,827		256,778
Vehicles	680,167			680,167
Office and Other Equipment	163,662	6,428	6,090	164,000
Subtotal	2,324,952	10,255	6,565	2,328,642
Less Accumulated Depreciation for				
Building	304,740	51,078	475	355,343
Medical Equipment	111,089	43,525		154,614
Vehicles	358,930	104,688		463,618
Office and Other Equipment	108,670	21,425	6,090	124,005
Subtotal	883,429	220,716	6,565	1,097,580
Net Capital Assets Being Depreciated	1,441,523	(210,461)	-	1,231,062
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 1,449,718</u>	<u>\$ 10,255</u>	<u>\$ 220,716</u>	<u>\$1,239,257</u>

NOTE H--COMPENSATED ABSENCES

SMCAS has an accrued liability for accumulated vested vacation and sick leave benefits payable for its employees. As of June 30, 2007, the accumulated vested vacation and sick leave benefits of the employees are as follows:

	<u>Balances 07/01/06</u>	<u>Additions (Reductions)</u>	<u>Balances 06/30/07</u>
Vested Employee Benefits			
Vacation Benefits	\$ 49,765	\$ (3,731)	\$ 46,034
Sick Leave Benefits		39,638	39,638
Total	<u>\$ 49,765</u>	<u>\$ 35,907</u>	<u>\$ 85,672</u>

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES (Continued)

Sick time hours are based on the following schedule:

Kelly Shift Staff-144 hours 12 Hour Day Crew Staff-120 hours

Upon voluntary termination of employment or death, an employee or his/her heirs shall be entitled to receive a cash payment for accrued and unused sick time up to a maximum of 250 hours.

Vacation is earned as follows:

	<u>Kelly Shift</u>	<u>12 Hour Day Crew</u>
Six months but less than one year	72 hours	60 hours
One year but less than two years	144 hours	120 hours
Two years but less than six years	216 hours	180 hours
Six years but less than ten years	288 hours	240 hours
Ten years plus	360 hours	288 hours

Accrued vacation will be paid to staff upon termination of employment or to the Employee's heirs upon death.

NOTE I--EMPLOYEES' RETIREMENT SYSTEM

SMCAS participates in a 401(a) retirement plan covering substantially all employees. Under the plan, SMCAS contributes an amount equal to 5% of an eligible employee's gross salary, excluding bonuses.

SMCAS also offers all employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in SMCAS' financial statements. In addition, SMCAS matches employee contributions up to 6% of the employees' gross salary, excluding bonuses.

For the year ending June 30, 2007, SMCAS contributed \$66,582 to the retirement plans.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT

SMCAS is exposed to various risks of loss related to property loss, torts, errors and omissions, and employees' injuries (workers' compensation). SMCAS has purchased commercial insurance policies to cover any anticipated or significant losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 8, 2007

Southwestern Michigan Community
Ambulance Service
2100 West Chicago Road
Niles, Michigan 49120

RE: Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the business-type activities Southwestern Michigan Community Ambulance Service, as of and for the year ended June 30, 2007, which collectively comprise Southwestern Michigan Community Ambulance Service's basic financial statements and have issued our report thereon dated November 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southwestern Michigan Community Ambulance Service's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Southwestern Michigan Community Ambulance Service's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Southwestern Michigan Community Ambulance Service's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the Southwestern Michigan Community Ambulance Service's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Southwestern Michigan Community Ambulance Service's financial statements that is more than inconsequential will not be prevented or detected by the Southwestern Michigan Community Ambulance Service's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting and are documented as item 2007-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Southwestern Michigan Community Ambulance Service's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider item 2007-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southwestern Michigan Community Ambulance Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Southwestern Michigan Community Ambulance Service's Board and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES

Segregation of Duties

Finding 2007-01

Condition: We noted in our consideration of internal controls over financial reporting several material weaknesses related to segregation of duties and the following accounting transaction cycles:

1. We found for the receipting process that the Executive Director currently opens all mail, posts all revenue to the general ledger, and reconciles the bank statements.
2. We found for the disbursement process that the Executive Director is responsible for opening the mail, reviewing the invoices, approving the invoices, entering the invoices into the general ledger, is the only signature on checks under \$2,500, and again is the reconciler of the bank statements.
3. We found for the payroll process that the Executive Director reviews the timesheets, enters the payroll information into the general ledger, processes the payroll, writes the checks for payroll, distributes the checks for payroll, and completes all tax forms.
4. We found for the bank reconciliation process that the Executive Director has sole control of disbursements and is the only one who reconciles the bank statements with no other approvals or verifications.

Criteria: The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) lists segregation of duties as a key component in control activities, a standard of internal control. Segregation of Duties is defined as key duties and responsibilities to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

The Uniform Accounting Procedures Manual issued by the Michigan Department of Treasury states “the functions of authorizations, recordkeeping, and custody of assets should be segregated where possible.”

Recommendation: We recommend that the board implement policies and procedures to create segregation of duties taking the following criteria into consideration:

1. Collections should be reconciled by an individual not involved in the receipting process. Ideally, the process of cash collection and depositing should be performed by an employee who is independent from general ledger recordkeeping and bank reconciliation. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.

SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES (Continued)

2. Dual signatures should be required for all checks. All functions (i.e., deposit, write checks, issue checks, reconcile account) regarding a checking account should not be performed by the same individual.
3. The payroll duties should be adequately segregated between the following: master file creation (including maintenance of pay rates), payroll check preparation, and payroll distribution.
4. In small units of government when segregation of duties is not possible, a second official must review the bank reconciliations.